



# Australian Bureau of Statistics

## 1350.0 - Australian Economic Indicators, 1991

ARCHIVED ISSUE Released at 11:30 AM (CANBERRA TIME) 20/01/1992

### 1991 Feature Article - Building Approvals and Housing Finance Statistics - Do They Tell the Same Story?

This article was published in Australian Economic Indicators December 1991 issue on 1 December 1991.

#### Introduction

Monthly building approvals and housing finance data provide indicators of intentions to build or purchase housing. Both are "leading" indicators of building activity.

While the approvals and finance series have shown broadly similar movements over the past decade, they measure different things. This article compares the two series and makes some observations on their strengths and weaknesses as leading indicators of building activity.

#### Concepts

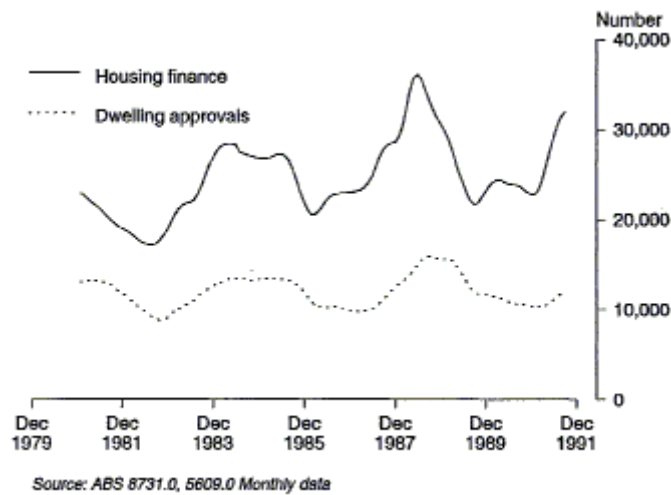
A **building approval** represents an intention to undertake either residential (i.e. dwelling) or non-residential building activity, including alterations or additions of significant value. Data on approvals are provided to the ABS by local government authorities, as an administrative by-product of the approval process. Local authorities generally require building activity to commence within twelve months. The ABS publishes a dissection into private and public sector approvals. This article discusses dwelling approvals only.

A **housing finance commitment** is an offer by a significant lending institution([footnote 1](#)), which has been accepted by the client, to provide funds for the financing of a dwelling. Only secured commitments, whether secured by mortgage, personal loan, contract of sale or other security, are recorded.

#### Number of Dwellings

Graph 1 shows the trend series for the total number of dwelling units approved and the number of dwelling units for which secured housing finance was committed during the past eleven years. While the two series have tracked each other reasonably well, the housing finance series is of a greater magnitude and is more volatile than dwelling approvals. This gap is predominately due to differences in what the two series measure.

**GRAPH 1. TOTAL NUMBER OF DWELLINGS APPROVED AND TOTAL NUMBER OF DWELLINGS FOR WHICH SECURED HOUSING FINANCE WAS COMMITTED FOR OWNER OCCUPATION, TREND SERIES**



Total new dwelling units approved represents the potential number of all new houses and all new other residential dwellings **to be constructed** by both the public and private sectors in the near future.

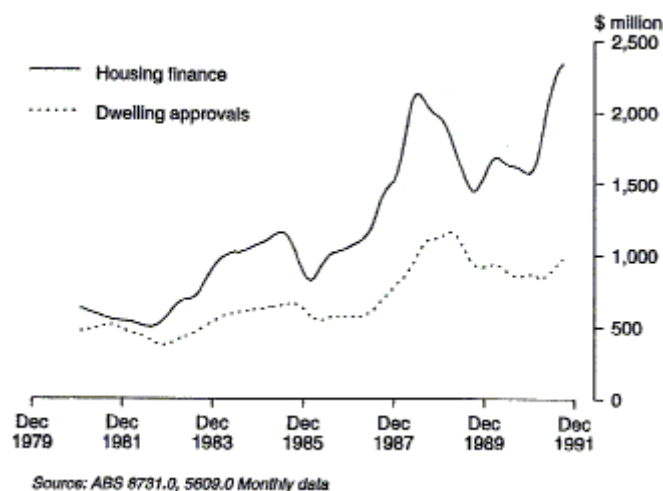
Total secured housing finance includes not only loan commitments for the **construction** of dwellings, but also for the purchase of **newly built** dwellings (mostly "spec" houses) and more significantly, for the purchase of **established** dwellings. Secured housing finance commitments relate only to intentions for owner occupation.

Thus, ignoring timing differences, the gap between the two series occurs largely because the housing finance series includes loan commitments for established dwelling units and the dwelling approvals series is restricted to dwellings to be constructed.

### Value of Approval or Loan

Graph 2 shows the trend series for dwelling approvals and housing finance commitments by value of approval or loan. The relationship between these two value series is less clear than the relationship between the two number series.

**GRAPH 2. TOTAL VALUE OF DWELLINGS APPROVED AND TOTAL VALUE OF SECURED HOUSING FINANCE COMMITMENTS FOR OWNER OCCUPATION, TREND SERIES**



A dwelling approval uses the **estimated construction costs** of the dwelling at the time of application, meaning that land values are not included. Secured housing finance measures the **value of the loan** committed, rather than the actual price paid for the dwelling. Established dwellings are generally purchased as a land and dwelling package. Thus, housing finance values tend to be higher than dwelling approval values when a land component has been included but tend to be lower when alternative sources of finance (such as a deposit or the proceeds of the sale of a previous dwelling) have been used.

A marked divergence has emerged between the value of dwelling approvals and housing finance commitments over recent years, with the value of housing finance commitments increasing at a greater rate.

The divergence between the two series reflects the more rapid rise over recent years in the average value of established dwellings and the land they occupy compared with the rise in the average value for project homes or for the construction of dwellings. Since established dwellings comprise around three-quarters of the total value of secured housing finance commitments, they have a strong influence on the total finance series. As a result, the total measured value of secured housing finance commitments for all types of owner occupation increased more rapidly than the value of dwelling approvals.

The deregulation of Australian financial markets during the 1980s may also have affected the relationship between these two series.

### **Usefulness as Indicators**

While both series provide an indication of potential future housing industry activity, they provide insights into different aspects of the industry.

Monthly dwelling approvals data are a timely indicator of proposed production activity in the housing industry, which is a dynamic segment of total productive activity. The link between proposed and actual activity has been fairly reliable over the past eleven years: a comparison of each three months' approvals (lagged by one month) with quarterly data on dwelling commencements, shows less than a 5 per cent gap. Some approvals are likely to appear as commencements in subsequent quarters. Thus, only a small percentage of approved dwelling construction does not proceed.

Movements in the secured housing finance commitments series provide information on two segments of the housing industry: the established housing market and the housing construction market. Secured housing finance commitments for the purchase of established dwellings accounts for about three-quarters of total secured housing finance commitments for owner occupation. This adds only marginally to economic activity in contrast to the direct and multiplier effects of finance for the construction of dwellings. Therefore, the relative size of the components of the housing finance commitments series need to be considered when assessing their potential economic impact.

### **The Most Comparable Series**

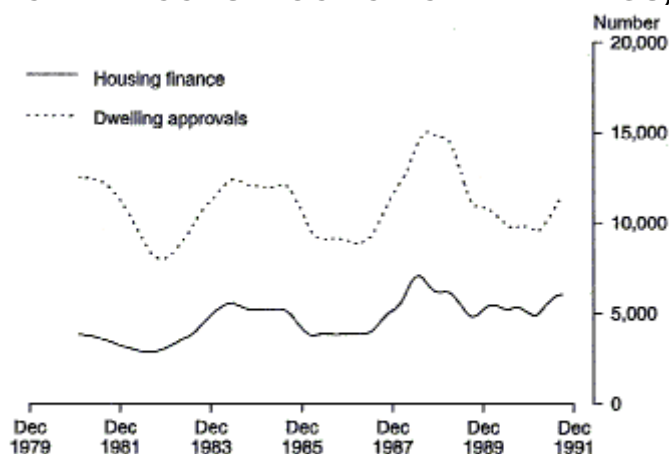
Several factors have been identified above to explain why the broad aggregate series of dwelling approvals and housing finance commitments for owner occupation are not directly comparable. More directly comparable are the component series:

- private new dwelling approvals, and
- housing finance commitments for the construction of a new dwelling for owner occupation.

Difficulties can arise even when comparing these two apparently similar series.

Graph 3 shows that although the two component trend series have tracked each other reasonably well over the past eleven years, the number of dwelling units approved is greater than the number of dwelling units for which finance is committed for construction, in contrast to the aggregate series discussed above.

**GRAPH 3. PRIVATE SECTOR DWELLINGS APPROVED AND SECURED HOUSING FINANCE COMMITMENTS FOR THE CONSTRUCTION OF DWELLINGS, TREND SERIES**



Source: ABS 8731.0, 5809.0 Monthly data

There are two main reasons why this is so: the availability of **alternative sources of finance**, and the number of **dwelling constructed for other than owner occupation**.

The first major reason for the difference in the levels of the two series is that not all private dwelling construction requires secured housing finance. For example, construction of a new dwelling may be financed by the sale of an existing property, and thus remain out of scope of the ABS housing finance collection. Recently, superannuation and redundancy lump sum payments may have added to this pool of available capital applied in this way.

Speculative home building activity also plays a significant role. A "spec" home builder's application to build will be included in the building approvals collection. However, the initial finance for the construction of this "spec" home can be provided by commercial finance or existing lines of credit, such as an overdraft facility and therefore be outside the scope of the housing finance collection. The builder is most likely to sell the house, at a later date, to an individual who intends to occupy the dwelling. Any housing finance acquired by the individual to purchase this new dwelling should be recorded at this time which may be twelve months or more after construction is completed. If the finance commitment is provided within twelve months, the loan is recorded as finance for the purchase of a newly constructed dwelling; if it is provided after twelve months, the loan is recorded as for the purchase of an established dwelling.

The second major reason for the difference in the levels of the two series concerns owner occupation. While the building approval collection includes all dwellings approved regardless of the proposed form of tenure (i.e. owners or renters), the housing finance series only covers secured finance commitments for intended owner occupation. Thus, finance which is sought for the construction of rental dwellings is not included in the housing finance commitments for owner occupation data. (Data for this type of finance are included in commercial and personal finance

statistics.)

There are two more factors which should be taken into account when comparing these series: **withdrawal of commitment to construct a dwelling and leads and lags in each of the series.**

Cancellations of previous intentions or commitments affect each series. Thus, commitments for finance and approvals to build that are submitted and granted may not be taken up for various reasons. The impact of such “leakages” should be taken into account when using the series as leading indicators of future economic activity. For example, of the \$19,727 million total loan commitments made in 1989-90, 3.8 per cent were subsequently cancelled.

Leads and lags in each series depend on the timing of processes associated with dwelling approvals and finance commitments and on the level of general economic activity. While the expected behaviour of intending investors would be to seek finance before commencing building activity and thus before seeking approval to build, this may not always be the case. Investors who have some form of alternative finance or who obtain an informal approval of finance may gain a building approval well before formal approval for finance is provided. In addition, at a trough of economic activity, the easier finance available may be taken up by those individuals who already had approval to build but had not proceeded earlier, thus creating a more significant lag between dwelling approvals and housing finance commitments.

## Conclusion

While dwelling approvals and secured housing finance commitments for owner occupation have exhibited broadly consistent movements over the past decade, they are different in concept and measure different things. Even comparing the two most closely related series from each collection (private sector new dwelling approvals and housing finance commitments for the construction of a new dwelling for owner occupation) requires care.

While the relationships between peaks and troughs in the series are fairly regular, further analysis of their lead/lag relationships and turning points would require a more formal statistical treatment.

This feature article was contributed by Graydon Smith, ABS.

## Footnote

1. Housing finance commitments are only collected from significant lenders, who account, in aggregate, for at least 95 per cent of all finance commitments at the Australian level and at least 90 per cent at the State level. [< Back](#)

---

This page last updated 18 December 2009

© Commonwealth of Australia

All data and other material produced by the Australian Bureau of Statistics (ABS) constitutes Commonwealth copyright administered by the ABS. The ABS reserves the right to set out the terms and conditions for the use of such material. Unless otherwise noted, all material on this website – except the ABS logo, the Commonwealth Coat of Arms, and any material protected by a trade mark – is licensed under a Creative Commons Attribution 2.5 Australia licence